

FINANCIAL REPORT
MELROSE TOWNSHIP
March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Melrose Township	County Charlevoix
Audit Date 3/31/05	Opinion Date 6/15/05	Date Accountant Report Submitted to State: 8/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

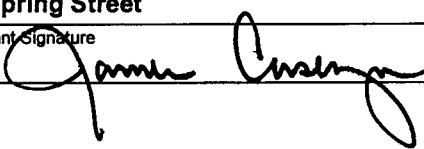
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP			
Street Address 923 Spring Street	City Petoskey	State MI	ZIP Code 49770
Accountant Signature 		Date 8/9/05	

**MELROSE TOWNSHIP
FINANCIAL REPORT
March 31, 2005**

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Hill ♦ Schroderus & Co., LLP

Certified Public Accountants & Consultants

June 15, 2005

Independent Auditors' Report

Township Board
Melrose Township
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of Melrose Township, Michigan, as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include all the financial activities of the Melrose Township Fire Department, which should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of Melrose Township, as of March 31, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2005, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Melrose Township's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Schneider & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

MELROSE TOWNSHIP

P.O. Box 189
Walloon Lake, MI 49796

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Melrose Township's basic financial statements include government-wide statement, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements. Because this is the first year of implementation of GASB Statement No. 34, prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in future years when prior year information is available.

Government-wide Financial Statements

The government-wide financial statements report information on all of the Township's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Township's assets and liabilities, with the difference reported as *net assets*. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the Township (general government, public safety, public works, etc.), which are supported by the Township's general revenues (property taxes, state shared revenues, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented, separate from the governmental funds, due to the fact that these assets do not represent assets of the Township. These assets are not presented as part of the Government-wide financial statements.

Melrose Township maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for all these funds which are considered major funds

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The table below summarizes the Township's net assets as of March 31, 2005:

Melrose Township March 31, 2005	
	<u>Governmental Activities</u>
Assets	
Current and other assets	\$ 420,693
Capital assets - net of accum dep	<u>1,256,580</u>
Total assets	<u>1,677,273</u>
Liabilities	
Current liabilities	83,601
Noncurrent liabilities	<u>955,600</u>
Total liabilities	<u>1,039,201</u>
Net Assets	
Investment in capital assets, net of related debt	285,980
Restricted	288,582
Unrestricted	<u>63,510</u>
Total net assets	<u>\$ 638,072</u>

At the end of the fiscal year, Melrose Township is able to report positive balances in all three categories of net assets. The first portion of the Township's net assets is its investment in capital assets (construction in progress, buildings, equipment and vehicles); less any related debt used to acquire those assets that are still outstanding. The Township uses these capital assets in providing services; consequently, these assets are not available for future spending.

The second portion of net assets, restricted net assets, represents resources that are subject to external restrictions on how they may be used. This would include restrictions for roads, fire operations, fire sinking and debt service expenses.

The remaining portion of net assets, unrestricted net assets, may be used at the Township's discretion to meet ongoing obligations.

The results for the Township as a whole are reported in the Statement of Activities, which is summarized below:

**Melrose Township
Year Ended March 31, 2005**

	<u>Governmental Activities</u>
Revenue	
Program revenue:	
Charges for services	\$ 50,021
Grants and contributions	7,300
General revenue:	
Property taxes	340,896
State shared revenues	95,327
Interest and rentals	9,106
Other	<u>10,025</u>
Total revenues	<u>512,675</u>
Function/Program Expenses	
General government	139,943
Public safety	44,389
Public works	204,164
Community and economic development	42,500
Recreation and cultural	15,432
Other	38,577
Interest on long-term debt	14,443
Depreciation (unallocated)	<u>39,472</u>
Total expenses	<u>538,920</u>
Change in net assets	(26,245)
Net assets - beginning of year	<u>664,317</u>
Net assets - end of year	<u><u>\$ 638,072</u></u>

As reported above, the Township recorded \$538,920 of expenses. The Township's activities were funded primarily with property tax revenues. State shared revenues and transfer station and zoning charge for services were other notable revenue sources.

The Township experienced a decrease in net assets of \$26,245. Road expenses exceeded current year revenue by almost \$70,000. However, property tax revenue for debt service was also about \$70,000 with only \$14,000 recognized as interest expense. General Fund expenses continue to exceed corresponding revenue.

Fund Financial Analysis

As of year end, the governmental funds reported a combined fund balance of approximately \$367,000, which is \$114,000 less than the beginning of the year. The decrease was mainly due to General Fund expenditures exceeding revenue by about \$84,000, Road Fund expenditure in excess of current year property tax revenues of about \$70,000 less debt service property taxes of \$70,000 without current year expenditures. Additional current year deficits in the Fire Sinking and Fire Hall added to the decrease in fund balance of the governmental funds.

General Fund Budgetary Highlights

Final budgeted revenues increased \$12,000 from original budgeted revenues, with an increase in budgeted state revenues of \$7,000 being the largest increase. Final budgeted expenditures decreased \$73,000 from the original budgeted amounts. A decrease in capital outlay and contingencies of \$60,000 was the largest decrease.

Final actual revenues were slightly over final budgeted amounts. Final actual expenditures were also slightly over final budgeted amounts. The largest budget variances were the board actual expenditures were less than budgeted by \$4,137 as rent was reclassified as a building and ground expenditure, largely explaining why that line item was over by \$7,331. The other significant variance was that legal expenditures were \$6,148 over budget.

Capital Assets

At March 31, 2005 the Township had \$1,256,580 invested in capital assets. The following table summarizes the capital asset activity for the year:

Melrose Township Year Ended March 31, 2005				
	<u>April 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>March 31, 2005</u>
Construction in progress	\$ -	\$ 992,536	\$ -	\$ 992,536
Beach, park and launch improvements	59,867	17,144	8,076	68,935
Equipment	55,978	33,573		89,551
Vehicles	216,182	69,790	-	285,972
 Total capital assets	 332,027	 1,113,043	 8,076	 1,436,994
 Less accum depreciation	 140,942	 39,472	 -	 180,414
 Net capital assets	 <u>\$ 191,085</u>	 <u>\$ 1,073,571</u>	 <u>\$ 8,076</u>	 <u>\$ 1,256,580</u>

The majority of the capital assets additions pertained to the construction of the new township/fire hall that is being financed with a Federal USDA general obligation bond loan that will be repaid using property tax collections approved by voters for this purpose.

Debt Outstanding

At the end of the year, the Township had \$970,600 in bonds outstanding. Below is the debt activity for the year:

Melrose Township Year Ended March 31, 2005				
	<u>April 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>March 31, 2005</u>
Bonds and notes payable	\$ -	\$ 970,600	\$ -	\$ 970,600

This new debt is for the construction of the new township/fire hall. Once completed the total debt will be \$995,000 with principal payments beginning for the fiscal year ending March 31, 2006. These payments and interest will be financed with property taxes approved by the citizens for this purpose.

Economic Factors

In June of 2004, the Township authorized a Downtown Development Authority (DDA) to encourage economic growth, historic preservation and revitalization of the local downtown district by implementing development plans and strategies to prevent deterioration and promote economic growth within the district by developing, adopting, and implementing development plans.

The DDA uses tax increment financing to facilitate economic development by deducting a portion of the increase in tax base to future downtown improvements.

Financial Contact

The Township's financial statements are designed to present users with a general overview of the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Township Treasurer, Melrose Township.

MELROSE TOWNSHIP
Statement of Net Assets
March 31, 2005

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>	<u>Component Unit</u> <u>Downtown</u> <u>Development Auth.</u>
<u>Assets</u>		
Current Assets		
Cash	\$ 70,251	\$ -
Investments	317,658	-
Taxes receivable	26,410	
Due from component unit	4,751	-
Prepaid expenses	1,623	-
	<hr/>	<hr/>
Total current assets	420,693	-
	<hr/>	<hr/>
Noncurrent Assets		
Capital assets	1,436,994	-
Less: accumulated depreciation	(180,414)	-
	<hr/>	<hr/>
Total noncurrent assets	1,256,580	-
	<hr/>	<hr/>
Total assets	\$ 1,677,273	\$ -
	<hr/>	<hr/>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 41,240	\$ -
Accrued expenses	12,918	-
Due to primary government	-	4,751
Accrued interest	14,443	-
Bonds payable, due within one year	15,000	-
	<hr/>	<hr/>
Total current liabilities	83,601	4,751
	<hr/>	<hr/>
Noncurrent Liabilities		
Bonds payable, net	955,600	-
	<hr/>	<hr/>
Total liabilities	1,039,201	4,751
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of related debt	285,980	-
Restricted for:		
Roads	92,359	-
Fire operations	33,965	-
Fire sinking	106,601	-
Debt retirement	55,657	-
Unrestricted	63,510	(4,751)
	<hr/>	<hr/>
Total net assets	638,072	(4,751)
	<hr/>	<hr/>
Total liabilities and net assets	\$ 1,677,273	\$ -
	<hr/>	<hr/>

See accompanying notes to the basic financial statements. 3

MERLOSE TOWNSHIP
Statement of Activities
For the Year Ended March 31, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary Government					
Governmental activities:					
General government	\$ 139,943	\$ 760	\$ -	\$ -	\$ -
Public safety	44,389	-	4,000	3,300	(37,089)
Public works	204,164	39,196	-	-	(164,968)
Community and econ. development	42,500	10,065	-	-	(32,435)
Recreation and cultural	15,432	-	-	-	(15,432)
Other	38,577	-	-	-	(38,577)
Interest on long-term debt	14,443	-	-	-	(14,443)
Unallocated depreciation	39,472	-	-	-	(39,472)
Total primary government	\$ 538,920	\$ 50,021	\$ 4,000	\$ 3,300	(481,599)
Component Unit					
Downtown Development Authority					
General government	\$ 4,751	\$ -	\$ -	\$ -	(4,751)
General revenues:					
Property taxes					340,896
State shared revenues					95,327
Interest and rentals					9,106
Other					10,025
Total general revenues					455,354
Change in net assets					(26,245)
Net assets - beginning of year					-
Net assets - end of year					638,072

MELROSE TOWNSHIP
Balance Sheet
Governmental Funds
March 31, 2005

	<u>Assets</u>						Total Governmental Funds
	General	Road	Fire Operating	Fire Sinking	Fire Hall Debt Retirement	Fire Hall Building	
Cash	\$ 4,054	\$ 840	\$ 425	\$ 396	\$ 64,488	\$ 48	\$ 70,251
Investments	94,540	84,932	35,153	103,033	-	-	317,658
Taxes receivable	7,867	6,587	3,172	3,172	5,612	-	26,410
Due from component units	4,751	-	-	-	-	-	4,751
Prepaid expenditures	1,623	-	-	-	-	-	1,623
Total assets	\$ 112,835	\$ 92,359	\$ 38,750	\$ 106,601	\$ 70,100	\$ 48	\$ 420,693
<u>Liabilities and Fund Balances</u>							
<u>Liabilities</u>							
Accounts payable	\$ 19,257	\$ -	\$ -	\$ -	\$ -	\$ 21,983	\$ 41,240
Accrued expenditures	8,133	-	4,785	-	-	-	12,918
Due to component units	-	-	-	-	-	-	-
Total liabilities	27,390	-	4,785	-	-	21,983	54,158
<u>Fund balances</u>							
Reserved for:							
Prepays	1,623	-	-	-	-	-	1,623
Roads	-	92,359	-	-	-	-	92,359
Fire operations	-	-	33,965	-	-	-	33,965
Fire sinking	-	-	-	106,601	-	-	106,601
Debt service	-	-	-	-	70,100	-	70,100
Unreserved:							
Undesignated	83,822	-	-	-	-	(21,935)	61,887
Total fund balances	85,445	92,359	33,965	106,601	70,100	(21,935)	366,535
Total liabilities and fund balances	\$ 112,835	\$ 92,359	\$ 38,750	\$ 106,601	\$ 70,100	\$ 48	\$ 420,693

MELROSE TOWNSHIP
Reconciliation of Governmental Funds Balance Sheet to the
Statement of Net Assets
March 31, 2005

Total Fund Balance - Governmental Funds	\$ 366,535
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Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives.

Governmental capital assets	1,436,994
Accumulated depreciation	(180,414)

Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds.	(14,443)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(970,600)</u>
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Net Assets of Governmental Activities	<u><u>\$ 638,072</u></u>
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MELROSE TOWNSHIP
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended March 31, 2005

	General	Road	Fire Operating	Fire Sinking	Fire Hall Debt Refirement	Fire Hall Building	Total Governmental Funds
Revenues							
Taxes	\$ 112,013	\$ 81,698	\$ 38,526	\$ 38,559	\$ 70,100	\$ -	\$ 340,896
State grants	95,327	-	3,300	-	-	-	98,627
Contributions from local units	-	-	4,000	-	-	-	4,000
Charges for services	50,021	-	-	-	-	-	50,021
Interest and rentals	1,556	781	220	6,549	-	-	9,106
Other	-	-	725	9,300	-	-	10,025
Total revenues	258,917	82,479	46,771	54,408	70,100	-	512,675
Expenditures							
Current:							
General government	139,943	-	-	-	-	-	139,943
Public safety	1,873	-	42,516	-	-	-	44,389
Public works	53,410	150,754	-	-	-	-	204,164
Community and econ. development	42,500	-	-	-	-	-	42,500
Recreation and cultural	15,432	-	-	-	-	-	15,432
Other	38,577	-	-	-	-	-	38,577
Capital outlay	50,717	-	-	69,790	-	992,536	1,113,043
Total expenditures	342,452	150,754	42,516	69,790	-	992,536	1,598,048
Excess (deficiency) of revenues over expenditures	(83,535)	(68,275)	4,255	(15,382)	70,100	(992,536)	(1,085,373)
Other financing sources (uses)							
Bond proceeds	-	-	-	-	-	970,600	970,600
Net change in fund balances	(83,535)	(68,275)	4,255	(15,382)	70,100	(21,936)	(114,773)
Fund balances - beginning of year	168,980	160,634	29,710	121,983	-	1	481,308
Fund balances - end of year	\$ 85,445	\$ 92,359	\$ 33,965	\$ 106,601	\$ 70,100	\$ [21,935]	\$ 366,535

MELROSE TOWNSHIP
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ (114,773)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation.

Expenditures for capital assets	1,113,043
Current year depreciation	(39,472)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt uses current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Bond proceeds	(970,600)
Principal payments	-

Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.

	(14,443)
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Change in Net Assets of Governmental Activities	\$ (26,245)
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MELROSE TOWNSHIP
Statement of Fiduciary Net Assets
Fiduciary Fund
March 31, 2005

		<u>Agency Tax Fund</u>
<u>Assets</u>		
Cash		<u>\$ 4,483</u>
<u>Liabilities</u>		
Due to other governmental units		<u>\$ 4,483</u>

MELROSE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township operates under a Board-Supervisor form of government and provides the following services as authorized by common law: public safety (fire), highways and streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The Township's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds and similar component units in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the Township of Melrose:

REPORTING ENTITY

These financial statements present the Township (the primary government) and its component unit. As defined by GASBS No. 14, component units are legally separate entities that are included in the Township's reporting entity because of the significance of their operating or financial relationships with the Township. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Downtown Development Authority – The Downtown Development Authority, which was established pursuant to the provisions of Public Act 197 of 1975, as amended, is governed by a board appointed by the Township Board. The Authority may issue debt subject to limitations set forth in the Act, but may not expend any monies without prior approval of the Township Board. Separate financial statements for the Downtown Development Authority are not issued.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – OVERVIEW

The Melrose Township's basic financial statements include both government-wide (reporting the Township as a whole) and fund financial statements (reporting the Township's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the Township as an entity and the change in the Township's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Township's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Township first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Township are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Governmental Funds

The following is a description of the major governmental funds of the Township:

General Fund – The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Road Fund – The Road Fund accounts for taxes levied for the purpose of local road construction and maintenance.

Fire Operating Fund – The Fire Operating Fund accounts for taxes levied, amounts received from other governmental units used for fire department operations.

Fire Sinking Fund – The Fire Sinking Fund accounts for taxes levied for the purpose of acquiring fire equipment for the fire department.

Fire Hall Debt Retirement – The Fire Hall Debt Retirement Fund accounts for taxes levied for the purpose of paying the interest and principal on the 2004 general obligation bonds, the proceeds of which are being accounted for in the Fire Hall Building Fund.

Fire Hall Building Fund - The Fire Hall Building Fund accounts for the expenditure of the proceeds of the 2004 general obligation bonds for the purpose of acquiring, constructing, furnishing and equipping an addition to, and renovating township/fire hall, acquiring and improving the site and parking therefore, and the cost of issuing the bonds.

Fiduciary Funds

The fiduciary funds are used to account for assets held by the Township in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Agency funds use the accrual basis of accounting, however report only assets and liabilities.

Agency Fund – The Agency Fund accounts for the collection and payment of property tax levies, payroll withholdings, nonprofit organization receipts and water billings.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIS OF ACCOUNTING – CONTINUED

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds, pension trust funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are recorded by the Township when the initial individual costs are greater than \$3,000, and acquired after June 15, 1999. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Infrastructure improvements	20 years
Equipment	7 to 10 years
Vehicles	10 years

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

COMPARATIVE DATA

Comparative data for the prior year is not included in the Township's financial statements.

ACCOUNTING CHANGE

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Effective January 1, 2004, the Township implemented the provisions of GASB No. 34. Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations.
- Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements with a focus on major funds.
- Capital assets in the governmental activities column of the Statement of Net Assets include assets which were previously reported in the General Fixed Asset Account Group.
- Liabilities in the governmental column of the Statement of Net Assets include bonds and other long-term obligations which were previously reported in the General Long-Term Debt Account Group.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the Township except for the agency funds. Budgetary control is legally maintained at the fund level.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing April 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at Township Hall to obtain taxpayer comments.
3. Prior to April 1, the fund budgets are legally enacted through passage of resolutions.
4. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
5. Budgeted amounts are as originally adopted, or as amended by the Township Board.
6. All appropriations lapse at year-end.

During the year, the Township incurred expenditures which were in excess of the amounts appropriated for the following Funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
General	\$ 336,678	\$ 342,452	\$ 5,774
Fire Sinking	67,735	69,790	2,055

NOTE 3: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township's deposits and investment policy are in accordance with statutory authority.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: CASH AND INVESTMENTS – CONTINUED

Cash Deposits

At March 31, 2005, the carrying amount of the Township's deposits for both governmental activities and the fiduciary fund was \$ 74,734 and the bank balance was \$ 74,030.

Pooling of Cash - The Township pools cash to maximize its investment return.

<u>Fund</u>	<u>Amount</u>
Primary Government	
General	\$ 4,054
Road	840
Fire Operating	426
Fire Sinking	396
Fire Hall Debt Retirement	64,488
Fire Hall Building	<u>48</u>
Total pooled cash	70,252
Cash not held in pooled accounts:	
Primary government	-
Component Unit	-
Fiduciary Funds	<u>4,483</u>
Total cash	<u><u>\$ 74,735</u></u>

Federal Depository Insurance

All of the above balance in cash was covered by federal depository insurance. The Township may experience significant fluctuations in deposit balances through the year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: CASH AND INVESTMENTS – CONTINUED

Investments

Investments are stated at market value. Investments held at a financial institution can be categorized according to three levels of risk. The three levels of risk are:

- | | |
|------------|--|
| Category 1 | Investments that are insured, registered or held by the entity or by its agent in the Townships name. |
| Category 2 | Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the Township's name. |
| Category 3 | Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the Township's name. |

Melrose Township has mutual fund investments with a carrying and market value of \$317,658 at year end. The nature of the mutual funds does not allow for risk categorization, which is in accordance with GASB Statement No. 3.

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of December 1 on the State taxable valuation of property in the Township. The Township bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental unit's taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year in which they are levied.

The Township is permitted by state law, subject to State Headlee and Truth in Taxation provisions, up to \$1 per \$1,000 of taxable valuation for both general governmental services and road maintenance, \$.5 per \$1,000 for both fire operations and equipment. Additionally, the Township is authorized to levy the amount necessary for the payment of principal and interest on general obligation long-term debt. The 2004 State taxable valuation of Melrose Township totaled \$82,201,246.

The tax rate for the year ended March 31, 2005, was as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>	
General governmental services	.9038	per \$1,000
Roads	1.0000	per \$1,000
Fire operations	.4711	per \$1,000
Fire equipment	.4711	per \$1,000
Debt	.8594	per \$1,000

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: CAPITAL ASSETS

Capital asset activity of the Township's primary government for the current year was as follows:

	Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005
Governmental Activities				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 992,536	\$ -	\$ 992,536
Capital assets being depreciated:				
Beach, park and launch ramp improv.	59,867	17,144	8,076	68,935
Equipment	55,978	33,573	-	89,551
Vehicles	216,182	69,790	-	285,972
Subtotal	332,027	120,507	8,076	444,458
Accumulated Depreciation:				
Beach, park and launch ramp improv.	7,687	3,182	-	10,869
Equipment	14,064	8,542	-	22,606
Vehicles	119,191	27,748	-	146,939
Subtotal	140,942	39,472	-	180,414
Net capital assets being depreciated	191,085	81,035	8,076	264,044
Governmental activities net capital assets	\$ 191,085	\$ 1,073,571	\$ 8,076	\$ 1,256,580

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: CAPITAL ASSETS – CONTINUED

Depreciation expense was charged to the primary government as follows:

Governmental Activities

Unallocated	\$ 39,472
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Construction Commitments

The Township has active construction projects at year-end. The projects include:

	<u>Project Estimates</u>	<u>Expended to Mar. 31, 2005</u>	<u>Committed</u>
Combined township/fire hall	\$ 995,000	\$ 992,536	\$ -

At year-end, all construction in progress amounts are capitalized.

NOTE 6: LONG-TERM DEBT

The following is a summary of the Township's long-term debt transactions for the year ended March 31, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
PRIMARY GOVERNMENT					
Governmental Activities					
Bonds and notes payable:					
General obligation debt					
2004 Series	\$ -	\$ 970,600	\$ -	\$ 970,600	\$ 15,000

Long-term liabilities payable at March 31, 2005 is composed of the following individual issues:

\$995,000, 2004 USDA General Obligation bonds due in annual installments of \$15,000 to \$60,000 through May 1, 2034; interest at 4.25%. Not all of the construction bond proceeds had been drawn at year end.	\$970,600
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: LONG-TERM DEBT – CONTINUED

The annual debt service requirements to maturity for the bonds outstanding as of March 31, 2005, are as follows:

Year Ending March 31	Principal	Interest	Total
2006	\$ 15,000	\$ 41,720	\$ 56,720
2007	15,000	41,086	56,086
2008	15,000	40,453	55,453
2009	15,000	39,819	54,819
2010	20,000	39,079	59,079
2011 - 2015	105,000	182,613	287,613
2016 - 2020	135,000	157,470	292,470
2017 - 2025	175,000	124,933	299,933
2026 - 2030	220,000	83,416	303,416
2031 - 2035	280,000	30,596	310,596
Total	<u>\$ 995,000</u>	<u>\$ 781,185</u>	<u>\$ 1,776,185</u>

NOTE 7: RISK MANAGEMENT

The Township carries commercial insurance for various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. Settled claims have not exceeded coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

MELROSE TOWNSHIP
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning of year fund balance	\$ 166,536	\$ 170,522	\$ 168,980	\$ (1,542)
Resources (inflows)				
Property taxes	104,510	109,780	112,013	2,233
State grants	88,592	95,325	95,327	2
Charges for services	48,000	49,178	50,021	843
Interest	1,800	750	1,556	806
	<u>409,438</u>	<u>425,555</u>	<u>427,897</u>	<u>2,342</u>
Amounts available for appropriation				
	<u>409,438</u>	<u>425,555</u>	<u>427,897</u>	<u>2,342</u>
Charges to appropriations (outflows)				
General government				
Board	15,696	16,771	12,634	(4,137)
Supervisor	13,075	12,750	12,748	(2)
Clerk	11,830	10,890	10,867	(23)
Information technology	2,520	2,520	2,310	(210)
Treasurer	19,718	20,243	20,364	121
Board of review	1,225	770	1,808	1,038
Assessor	20,880	20,715	20,939	224
Elections	3,100	2,235	2,222	(13)
Building and grounds	13,399	10,514	17,845	7,331
Township property	14,784	13,355	12,964	(391)
Legal	12,000	12,000	18,148	6,148
Cemetery	7,784	6,837	7,094	257
Public safety				-
Sheriff	1,500	1,900	1,873	(27)
Public works				-
Street lighting	5,500	5,500	5,843	343
Spring cleanup	3,659	3,500	3,420	(80)
Transfer station	45,000	44,766	44,147	(619)
Health and welfare				-
Ambulance	2,000	2,000	-	(2,000)
Community and economic development				-
Planning and zoning	48,225	41,141	42,500	1,359
Recreation and cultural				-
Parks	18,590	15,095	15,432	337
Other	34,212	38,474	38,577	103
Capital outlay	114,741	54,702	50,717	(3,985)
	<u>409,438</u>	<u>336,678</u>	<u>342,452</u>	<u>5,774</u>
Total charges to appropriations				
	<u>409,438</u>	<u>336,678</u>	<u>342,452</u>	<u>5,774</u>
Ending budgetary fund balance	\$ -	\$ 88,877	\$ 85,445	\$ (3,432)

MELROSE TOWNSHIP
Budgetary Comparison Schedule
Road Fund
For the Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning of year fund balance	\$ 154,500	\$ 154,500	\$ 160,634	\$ 6,134
Resources (inflows)				
Taxes	71,000	71,000	81,698	10,698
State grants	950	950	-	(950)
Interest	1,000	1,000	781	(219)
Amounts available for appropriation	227,450	227,450	243,113	15,663
Charges to appropriations (outflows)				
Public works				
Road repair and maintenance	155,880	155,880	150,754	(5,126)
Ending Budgetary fund balance	<u>\$ 71,570</u>	<u>\$ 71,570</u>	<u>\$ 92,359</u>	<u>\$ 20,789</u>

MELROSE TOWNSHIP
Budgetary Comparison Schedule
Fire Operating Fund
For the Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning of year fund balance	\$ 33,577	\$ 33,577	\$ 29,710	\$ (3,867)
Resources (inflows)				
Taxes	40,283	40,283	38,526	(1,757)
State grants	2,500	2,500	3,300	800
Contributions from local units	4,000	4,000	4,000	-
Interest	100	100	220	120
Other	-	-	725	725
Amounts available for appropriation	80,460	80,460	76,481	(3,979)
Charges to appropriations (outflows)				
Public safety				
Fire	47,832	47,832	42,516	(5,316)
Ending budgetary fund balance	<u>\$ 32,628</u>	<u>\$ 32,628</u>	<u>\$ 33,965</u>	<u>\$ 1,337</u>

MELROSE TOWNSHIP
Budgetary Comparison Schedule
Fire Sinking Fund
For the Year Ended March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over/(Under)</u>
Beginning of year fund balance	\$ 118,959	\$ 118,959	\$ 121,983	\$ 3,024
Resources (inflows)				
Taxes	40,283	40,283	38,559	(1,724)
Interest and rentals	1,525	1,525	6,549	5,024
Other	-	-	9,300	9,300
Amounts available for appropriation	160,767	160,767	176,391	15,624
Charges to appropriations (outflows)				
Capital outlay	67,735	67,735	69,790	2,055
Ending budgetary fund balance	<u>\$ 93,032</u>	<u>\$ 93,032</u>	<u>\$ 106,601</u>	<u>\$ 13,569</u>

June 15, 2005



Hill • Schroderus & Co., LLP
Certified Public Accountants & Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Township Board
Melrose Township
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities, the discretely presented component unit and each major fund, as of and for the year ended March 31, 2005, which collectively comprise the Melrose Township's basic financial statements and have issued our report thereon dated June 15, 2005. The report on the financial statements referred to above were qualified, as they do not include all of the financial activities of the Melrose Fire Department. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Melrose Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Melrose Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Township Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hill, Schroderus & Co.,

CERTIFIED PUBLIC ACCOUNTS
Petoskey, Michigan



June 15, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Township Board
Melrose Township
Charlevoix County, Michigan

Compliance

We have audited the compliance of Melrose Township with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended March 31, 2005. Melrose Township's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Melrose Township's management. Our responsibility is to express an opinion on Melrose Township's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Melrose Township's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Melrose Township's compliance with those requirements.

In our opinion, Melrose Township complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended March 31, 2005.

Internal Control Over Compliance

The management of Melrose Township is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Melrose Township's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, Township Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTS
Petoskey, Michigan

MELROSE TOWNSHIP
Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2005

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Direct Program:		
Community Facilities Loans and Grants	10.776	\$ 992,536

Notes:

1. This schedule is prepared using the modified accrual basis.

**MELROSE TOWNSHIP
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended March 31, 2005**

Finding/Noncompliance

There were no uncorrected findings from the previous year's audit.

**MELROSE TOWNSHIP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended March 31, 2005**

Summary of Audit Results

1. Melrose Township has received a qualified opinion on its financial statements.
2. We noted no matters in Melrose Township's internal control structure which we consider to be reportable conditions.
3. We noted no noncompliance that would be material to the financial statements.
4. We noted no matters in Melrose Township's internal control over major programs which we consider to be reportable conditions.
5. Melrose Township has received an unqualified opinion on compliance for its major program, Community Facilities Loans and Grants.
6. We noted no audit findings required to be reported under Section 510 (a) of OMB Circular A-133.
7. The program tested as a major program was the Community Facilities Loans and Grants program.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Melrose Township did not qualify as a low-risk auditee.

Findings and Questions Costs

We noted no material findings, or questioned costs.